PARAGON CAPITAL MANAGEMENT, LLC

April 2020

COVID-19

We titled our last newsletter in January "Year of Changes". The changes in 2019 to the industry were a drop in the bucket compared with what we have all experienced through the first three months of 2020. To say we are in totally unchartered waters would be a tremendous understatement. Paragon has tried to keep our newsletters concise, fun and informative. While this quarter our newsletter will be longer, we encourage you to read through it as we will try to break down what has happened and where we think we are headed.

Before we begin, everyone at Paragon wants to give a HUGE thank you to our Doctors, Nurses, medical professionals and essential workers who are sacrificing their own health and exposing their family's health to fight COVID-19 and save lives. We also want to recognize all the companies in America and around the world that have volunteered to reconfigure manufacturing or business operations to help in the fight. From local distilleries making hand sanitizer and car manufactures making ventilators to all the local restaurants who are donating food to hospitals and essential workers.

All our daily lives have been affected by COVID-19. Some have family and/or friends who have tested positive. We have daily updates from Washington on the status of vaccines, stimulus plans and the spread of the virus around the globe. U.S. Secretary of the Treasury, Steve Mnuchin and Dr. Anthony Fauci have become household names. Federal Reserve Chair Jerome Powell has become the steady voice of the Monetary Stability. Essential businesses have changed to protect workers as we are now getting accustomed to tape on the floor every 6 ft. and plastic shields between us and the register. Food delivery is "no contact" as delivery people leave the food on the front step and stand back a safe distance. Facebook has become the go to source for updates on which store has toilet paper on the shelves.

Throughout history we have overused the statement, "this time is different." We have repeatedly reminded our clients that while it may seem different, it is not. During the 90's we were told that Technology stocks would never go down because the entire world needs cell phones, internet, computers, etc. We then watched the NASDAQ drop 80% and the S&P 500 decline 50%. We will never forget 9-11. The tragedy that happened that day will hopefully never be repeated on U.S. soil. The markets closed for several days. The markets were resilient and recovered in time to make new highs. In 2008/2009 the Banking Industry came to a screeching halt, banks closed, the Auto industry needed to be bailed out and the S&P 500 was down over 53%. Many thought the banks would never recover and business would never be the same. Today is no different, as we work from home, businesses closed, restaurants are shuttered or left to survive on carryout and delivery, unemployment soaring and the death count rising, we look to history for guidance.

First Quarter Recap

The first quarter of 2020 was the worst quarter for the stock market since the 1930's. It was the worst first 3 months to start a year in history. The Dow Jones Industrial Average was down 23.2% and the S&P 500 was down 20% for the quarter. From Feb 19 through March 23 the market was down 33.9%, creating the first Bear market (down > 20%) in 11 years which occurred in a record 16 days! We then had a rally of 17.5% in three days, which is the best three-day period since the 1930's.

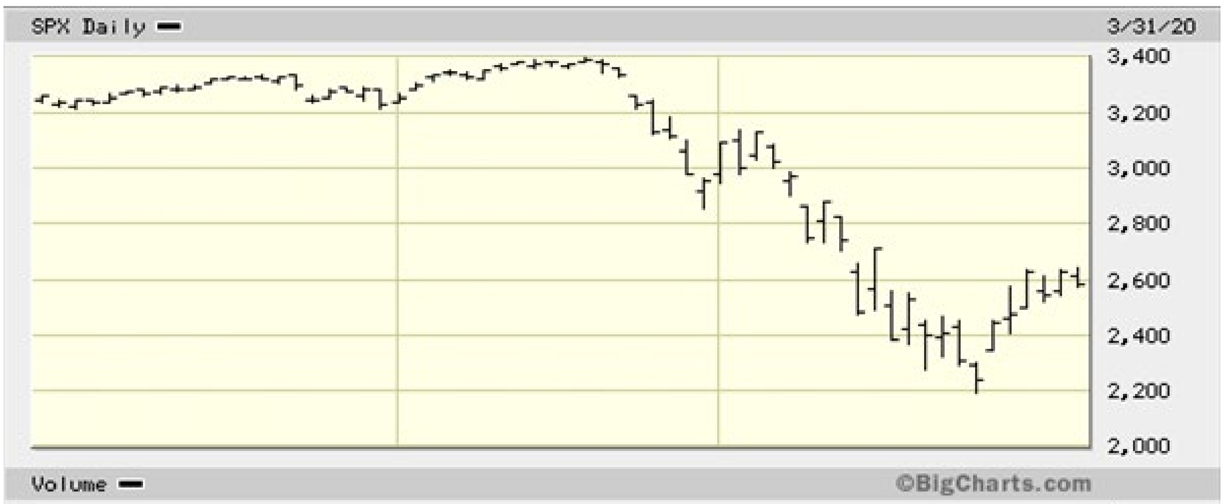

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*chart shows the S&P 500 for the first 3 months of 2020

The virus doesn't just affect the stock market, it is taking its toll on the Economy as non-essential businesses furlough employees or let them go. In the last two weeks we have seen jobless claims climb to over 10 million people. A record $2.2 trillion stimulus package was recently passed to try to help prevent the economy from slipping into a recession, giving checks to Americans under a certain income level and providing paycheck protection for small businesses to encourage them to keep their employees through this difficult time.

It is not just the Stock Market that is affected, but the Fixed Income, Commodities, Real Estate and other Investments classes. We have seen the Federal Reserve lower the Fed Funds Rate to 0.25% which is the cost of banks to borrow from the Federal Reserve. This creates stimulus by encouraging commercial banks to lend money for businesses to continue to operate. The 10-year Treasury finished the quarter with a yield of 0.608%. We do not anticipate the Federal Reserve to increase rates for many years to come. Oil finished the Quarter at $20/barrel, down from $61/barrel on Dec 31. The decline has been driven by the economic impacts of closing economies around the world in addition to lower gasoline and set fuel demand. To make matters worse, Saudi Arabia and Russia are flooding the market with oil.

Bear Market Rally or Next Bull Market

We are all eager to see the market go higher and our accounts to get back to where they were at the end of January. Every bit of good news is met with enthusiasm as we have seen the market rise 5%-10% in a single day multiple times and the 17.5% in three days mentioned earlier. Within every Bear Market in history there are multiple Bear Market Rallies. These are rallies that look like the next big move higher that trick investors into buying prematurely. If we look at January 2008 through December 31, 2009 on the chart below you will see rallies that lasted several months before the next leg down.

08 F M A M J J A S O N D 09 F M A M J J A S O N D 10

We have talked consistently over our 22 years at Paragon (and before Paragon) that it is impossible to time the market. Getting completely out and back in later does not work. We have preferred to trade these markets, selling stocks that we do not think will perform well in the current market conditions and buying companies that will either benefit currently or benefit during the recovery.

A common market theory you may have read or heard on T.V. is that markets always retest their lows or a double bottom.   Some will caution not to reinvest money until this occurs. Looking at 2008/2009 markets, the S&P 500 did not retest the lows and went on an 11-year bull market as shown below.

09 10 11 12 13 14 15 16 17 18 19

Where Do We Go From Here?

You will be reading and hearing from a lot of "experts" on this question and the simple answer is that nobody knows.   We can look to China or Europe for clues. I prefer to listen to CEO's that have business operations in China or Europe.   Are they back in business in China? Are sales picking up? Manufacturing? We trust the US CEO's to give credible guidance over what comes from the Chinese Government.   Fed Chair Powell and Treasury Sec. Mnuchin have both already talked about a 4^{th} stimulus package, possibly over the summer that would focus on Jobs and Infrastructure.   Johnson & Johnson has a vaccine that is going into human testing and could be available later this year or early 2021.   That sounds a long way off, but would set a record getting a new drug to market.   More ventilators, face masks and essential needs are being flown in from other countries and produced here in the US. We will overcome this, and we are here for you!

CARES ACT and Required Minimum Distribution

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law on March 27, 2020. Commentators are busy highlighting many of the CARES Act provisions as we described to some extent above, but there is one provision that Is not getting much attention. The CARES ACT temporarily waives required minimum distribution ("RMD") rules for certain retirement plans and accounts. This means that funds typically required to be distributed in 2020 to meet a retirement plan or account owner's RMD requirements (think IRA account RMDs!) can instead remain in these accounts which, in turn, provides a better opportunity for the retirement plan accounts to financially recover from the market turmoil while also typically deferring some income taxes. One last comment here, for those who have already made RMDs in 2020, if those 2020 RMD funds are not truly needed by the account owner, there may be a very time sensitive opportunity to "undo" the RMD and defer the related taxes. So, if this describes your situation, contact your tax advisor and/or us directly for more information as soon as possible.

How to stay informed

Throughout the last few weeks, we have tried a few different ways to keep everyone informed. We have sent out a couple newsletters with updates on the markets in reaction to COVID-19. We have also posted shorter updates on our Facebook and LinkedIn pages. I encourage you to follow us on both for more frequent updates.

Paragon LinkedIn: https://www.linkedin.com/company/paragon-capital-management-llc/?viewAsMember=true

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Even though Paragon's offices are temporarily closed, please call to schedule a phone conference or video conference.

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